budged to 73. But in Sherman, first in Fairfield affordability in 1990 and tied for first (with Stratford) in 2000, the index rose from 115 to 148. So as housing grew more affordable in the 1990s, the gap between the top and bottom towns grew wider, even in Fairfield County.

"More Affordable" Isn't Always "More Desirable"

Between 1990 and 2000 there have been some notable shifts in patterns of affordability, and the fault line lies along an urban-suburban divide. Cities have grown relatively more affordable, suburbs less so. In Fairfield County, the working-class cities of Bridgeport and Danbury, which had ranked 19th and 14th in affordability among the county's 23 towns, moved up to 3rd and 4th place, while swanky Westport moved from 3rd to 20th. In Hartford County, the blue-collar towns of East Hartford and New Britain, which had ranked near the bottom of its list of 29 towns, now rank 2nd and 4th, while upscale Simsbury and the adjacent town of Granby dropped from the top ten to 22nd and 24th, respectively. Likewise, in New Haven county, the cities of New Haven and Waterbury climbed from 24th and 19th to 1st and 2nd out of 27, while suburban Madison and Guilford dropped from the top ten to the bottom five.

So this rising affordability in the cities is a good thing, right? Not if it is the result of mediocre income growth, a dwindling population, and plummeting property values. And unfortunately, that's exactly what has happened. In the cities of Bridgeport, Danbury, New Haven, Waterbury, East Hartford and New Britain, income growth barely matched their respective county averages. And, due to both this slower income growth and declining populations, home prices in each locale (except Danbury) fell, most at double-digit rates. This same pattern appeared in the state's other big county, New London, but because the drop in urban home values relative to the county average was less severe, there weren't the same big shifts in town rankings. In the state's wealthier suburbs, by contrast, income growth typically led county averages, the population swelled, and the growth in home values far outstripped the norm.

Beyond Affordability

Rising housing affordability, at least in some portions of Connecticut, exacts a steep price. Often, it is gained at the expense of falling property values, a population drain, and a strained local economy. Economists often speak of the ability of markets to harness self-correcting economic forces. The renewed affordability of urban living should, all things considered, attract new residents and prompt a central city renaissance.

But there's another possibility. The steady urban population exodus may make city living increasingly undesirable, and feed a cumulative spiral downward, all against a backdrop of rising affordability. It's not clear that either option is inevitable, but it's also not clear the latter option is avoidable. Making its cities both vibrant *and* affordable may be Connecticut's biggest challenge in the decade ahead.

Costly Homes, Crowded Roads... Welcome to Southwest Connecticut

by Dennis Heffley

Southwest Connecticut—Fairfield and New Haven Counties—houses half the state's 3.4 million residents, but accounted for 57% of the state's total personal income in 1999. And between 1989 and 1999, total personal income in the two counties grew 62%, compared to 43% for the rest of the state. Envious?

Don't be. Southwest Connecticut's robust economy also has a downside: success has generated conditions that could limit future growth, there and throughout the state. Among the area's most pressing and highly publicized problems are road congestion and high housing costs—two closely connected issues.

Location, Location,... But That's Not All

Economic models of urban land use stress the link between house prices (or rents) and transportation costs. Other things constant, households will pay more to locate nearer work to avoid long commutes. Alone, this would cause residential property values, adjusted for structural size and quality, to decline with a town's distance from major employment centers. But, besides location, other local factors might affect the market value of a Connecticut town's housing. Neighborhood quality (per capita income, crime rates, road congestion) and local public policies (educational and noneducational spending, property tax rates, state aid to towns, and zoning) are likely candidates. Like home prices, these local characteristics vary sharply, even within a small state.

Last year, across Connecticut's 169 towns, the median sales price of single-family homes ranged from $78,000 in New Haven to $900,000 in New Canaan—more than an 11-fold difference between two towns less than 40 miles apart. The median number of rooms in owner-occupied units (from the 1990 Census—we're still awaiting the 2000 figures), ranged from 5.4 in Bridgeport to 8.5 in New Canaan and Weston. Per capita personal income in Hartford ($19,210) is less than one-fifth the level in New Canaan ($108,008). Hefty differences also exist in crimes per thousand residents (Hampton's 3.7 to New Haven's 97.2), per capita noneducational spending (Mansfield's $431 to Greenwich's $2,674), equalized mill rates (Griswold's 5.1 to Hartford's 33.8), and per capita state aid (New Canaan's $49 to Hartford's $1,687). Even school spending per pupil, long the target of state-level equalization efforts, is 75 percent higher in Greenwich ($11,648) than in Colchester ($6,669). Based on an earlier study of local zoning practices, minimum lot-sizes range from zero (no minimum) up to 5 acres in several towns. Finally, the measure of road congestion—daily vehicle-miles per square mile of land—is unavailable for towns, but varies sharply at even the county level (Litchfield County's 4,529 to Fairfield County's 31,223).

Despite large differences in median prices and local characteristics, the geographic patterns are hardly random. Because potential buyers will pay more for favorable features and require discounts for unfavorable ones, property markets readily "capitalize" local characteristics into house prices. We used town-level data to estimate this relationship between the median sales price and local characteristics. Regression analysis showed that the nine characteristics noted above, along with five location variables—distances from New York, Boston, Hartford, Springfield, and the shore—jointly accounted for 93% of the variation in the median sales price across the state's 169 towns. For 11 of the 14 variables, the estimated effects on price were both consistent with housing market theory and statistically significant (almost certainly not zero).

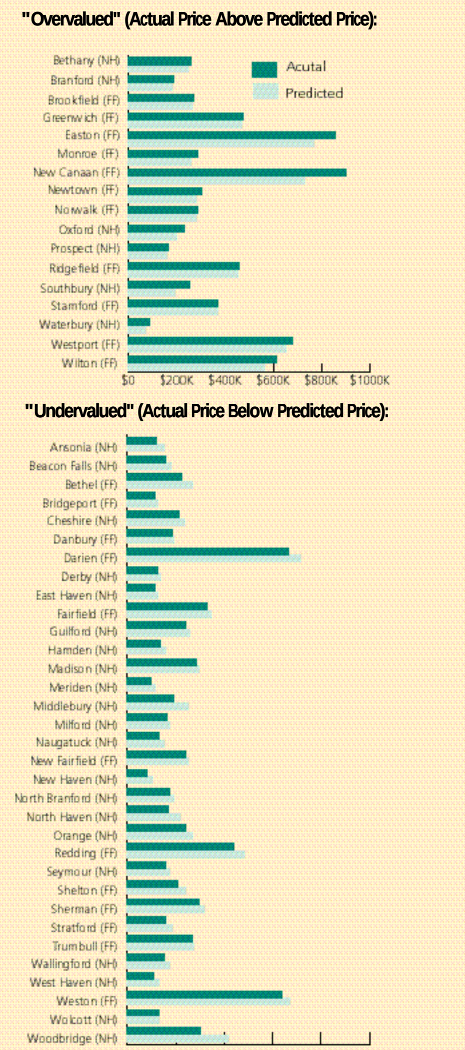
What Matters?

Connecticut lies between New York and Boston. Both of these major metropolitan areas affect local property values. Controlling for house size (median number of rooms) and other town characteristics, the median sales price drops about 14.1% for each 10% increase in distance from New York City, and about 9.4% for each 10% increase in distance from Boston. As expected, price also falls with distance from Springfield (MA) and from Long Island Sound, but neither effect is statistically significant. Both effects may be quite localized: Springfield's influence may be concentrated in a handful of Connecticut's northern border towns, and the "shoreline premium" may dissipate even faster than the smell of salt air. Finally, contrary to theory, distance from Hartford—Connecticut's capital and one of its major employment centers—has a positive effect on prices, controlling for other characteristics.

Neighborhood quality variables are good predictors of the median sales price. Per capita income captures a variety of socioeconomic factors (educational attainment, employment status, etc.) and has a strong positive relationship to house values—10.2% higher for each 10% increase in income. Not surprisingly, crime depresses property values: 1.3% lower for each 10% increase in the crime rate. Traffic congestion, measured by the daily vehicle-miles traveled per square mile of land, has a small but statistically significant negative relationship to the median sales price—0.9% lower for each 10% increase in congestion.

Finally, public policies also affect property values. Median sales prices are positively related to local public spending: 5.9% higher for a 10% increase in school spending per pupil, and 2.0% higher for a 10% increase in noneducational spending per capita. This might provide a case for expanding public services to enhance local property values, but if more spending requires a higher property tax rate, the argument suffers. Each 10% increase in the equalized mill rate lowers the median sales price by about 2.8%. Of course, the pro-spending argument grows stronger if the spending increase can be externally financed. In this regard, state aid seems to boost a town's property values: 1.6% higher for each 10% increase in per capita state aid, other factors constant. Higher median sales prices are also associated with stricter zoning requirements: 0.5% higher for each 10% increase in the minimum lot-size.

Median Sales Price of Single-Family Homes in SW Connecticut Towns, Actual vs. Predicted, 2000



Source: Developed by *The Connecticut Economy* based on data from the Connecticut Policy and Economic Council, various state agencies,and The Warren Group.

Bargain Hunting?

Besides quantifying the factors that affect property values, the model can be used to see if housing values in Southwest Connecticut, or other regions, are "abnormally" high or low, given the locations and characteristics of towns. For each of the 50 towns in Fairfield and New Haven Counties, the bar graph compares the town's actual median sales price with its predicted price, found by using the town's unique characteristics in the estimated model. In wealthier Fairfield County, actual values exceed predicted values in 11 of 23 towns, but only 6 of New Haven County's 27 towns seem to be "overvalued." "Bargain" towns—where actual values lie below predicted values, based on local characteristics—are clearly much more common in New Haven County.

By and large, house values seem to reflect both the positive and negative attributes of individual towns, and the estimated model does a fair job of depicting this market process. In two-thirds of the state's 169 towns, the predicted price, differs from the actual median sales price by less than 15%, plus or minus. Still, some large differences between actual and predicted values do exist. This might indicate the market's failure to correctly value some characteristics included in the model. More likely, though, it reflects shortcomings of the model, especially the failure to consider unique characteristics that affect prices in particular towns—a prison, a university, a nuclear facility, to name a few.

Down the Road

Considering the links between location, transportation, and home prices, what can we say about Southwest Connecticut's future? Congestion raises travel costs, enhancing the value of a shorter commute. As regional congestion intensifies, we would expect some employees to try even harder to shorten commutes by living closer to work. Stamford's growing importance as a major employment center in Fairfield county, coupled with rising congestion, may strengthen efforts by workers to locate in the city or its suburbs (Darien, Greenwich, New Canaan, Norwalk, Wilton). House prices in most of these towns already top expected levels, based on local characteristics, but the gaps could expand. Eventually, though, a sustained "overvaluation" of property in and around Stamford could cause some workers to find towns where housing is "undervalued." Since there are many more of these "bargain" towns in New Haven County than in Fairfield County, we probably should expect wider housing searches and longer commutes, extending Fairfield County's congestion problems to other parts of the state.

Interestingly, congestion has another impact that could slow the dispersion. Besides raising transportation costs and boosting the price households will offer to live closer to work, road congestion impairs neighborhood quality and reduces property values. This keeps housing more affordable in congested areas and reduces the incentive to seek "bargains" elsewhere. But, based on the study, this effect is modest and unlikely to halt the spread of Southwest Connecticut's twin problems—costly homes and crowded roads.

Policymakers cannot do much to suppress market forces, but they can channel them to better ends. An understanding of how housing markets work and how they interact with transportation systems might help shape transportation, housing, and land-use policies that better serve public interests. But there's one thing we can count on—the benefits or costs of such policy changes to individual towns ultimately will be reflected in local property values.